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River East garage, retail space sold

Boston developer pays \$117 million

By Thomas A. Corfman

Tribune staff reporter

Published October 29, 2005

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A Boston developer and pension fund adviser is paying \$117 million to buy the retail space garage in the mixed-use River East Center development in Streeterville.

Intercontinental Real Estate Corp. has a contract to buy the 1,150-car garage and 260,000 feet of retailing in the two-tower development, which also includes an Embassy Suites hotel condominium high-rise. Tenants include upscale bowling alley Lucky Strike Lanes, high-end club Holmes Place and a 21-screen AMC movie theater.

Driving the deal is the neighborhood's building boom.

"With all that residential coming, I've got to believe that the combination of a cinema, a work and Lucky Strike is a good thing," said Peter Palandjian, Intercontinental's chairman and chief executive, who confirmed the deal.

The transaction, which is expected to close in December, is another sign of investors' continuing hunger for retail real estate. Although investments in other property types, such as warehouse office buildings, have surged this year, the buying spree for large malls and smaller strip centers began three years ago, experts in the field say.

"The consumer spending that has fueled the economy has translated into great market fundamentals for retail: high occupancy levels and good rental rate growth," said George G. executive vice president with real estate firm CB Richard Ellis Inc., who isn't involved in the

River East Center is on the block bounded by Grand Avenue, Illinois Street, McClurg Court and Columbus Drive.

The seller is a venture managed by Chicago developer Daniel McLean, chief executive of M Cos. McLean developed the massive complex in 2002 and bought back the retail/garage component 18 months ago from Mitsui Sumitomo Insurance Co.

The Tokyo insurer gained control over the development the same year after a construction default, amid a clash between McLean and some of his investors. Intercontinental is paying \$32 million more than the McLean venture, sources said. Yet Intercontinental sees a strong

in leasing the remaining vacant space, including two large first-floor spaces totaling 26,600 : feet, according to a floor plan.

Also available: an 18,500-square-foot space in the second-floor lobby, near Lucky Strike an ticket counter for the theater, which is one of the top financial performers locally among mov chains. The theaters themselves are on the third floor.

The retail portion of the building totals 260,000 square feet, including common areas. Other include Harris Bank and Walgreens, which combined have nearly 16,000 square feet. The drugstore signed a 40-year lease in 2004.

The total value of sales of malls and other retail properties in the Chicago area more than d to \$376.2 million, during the first nine months of 2005 compared with the same period a yea according to research firm Real Capital Analytics Inc. The average yield, or capitalization ra percent for the 20 deals tracked by Real Capital this year.

On River East Center, the initial yield is expected to be a little more than 7 percent, but it co exceed 9 percent when the space is fully leased.

But the deal is not without risk. Lucky Strike was started in just 2003 and its success is not y proven, and the Holmes Place gym is a joint venture of the London chain by the same name troubled Chicago health club company Bally Total Fitness Holding Corp.

The two tenants combined have an estimated 68,500 square feet, with the fitness center accounting for 32,500 square feet.

And the retail real estate investment market nationwide may be slowing, reflecting "investor concern about either the impact of rising energy costs on disposable income, or rising intere rates, which could end the cash-out refinancing boom," according to a report this week by N York-based Real Capital.

But Intercontinental is accustomed to such risks. The company, which was founded in 1959 construction company by Palandjian's father, raised its first real estate investment fund in 19 now manages a \$1 billion portfolio.

"In Boston, they are known more as developers, and they have obviously taken that to anot level," said Paul Lundstedt, an executive director with real estate firm Cushman & Wakefield

Retail space sells well

Amid the hot market for real estate investments this year, sales of retail assets in the Chicag have grown faster than any other property type, increasing by 109 percent.

TOTAL SALES DURING FIRST NINE MONTHS OF 2005

In millions of dollars Percent change
from 2004

Downtown office \$2,506 18%

Apartment rentals \$1,771.8 74%

Suburban office \$1,431.3 29%

Warehouse \$1,417.5 76%

Strip centers \$926.1 85%

Malls and other retailing \$376.2 109%

Industrial office \$137.6 60%

Source: Real Capital Analytics

Chicago Tribune

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